15

Ann D Berkowitz
Project Manager – Federal Affairs

1300 I Street, NW
Suite 400 West
Washington, DC 20005
(202) 515-2539
(202) 336-7922 (fax)

May 20, 2003

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Petition of Verizon for Forbearance from the Prohibition of Sharing Operating, Installation and Maintenance Functions Under Section 53.203(a)(2) of the Commissions Rules,* CC Docket No. 96-149

Dear Ms. Dortch:

Today, Dee May, Joe DiBella and Ed Shakin of Verizon met with Bill Maher and Bill Dever of the Wireline Competition Bureau to discuss the above proceeding. All issues discussed are consistent with the record. The handout used during the meeting is attached. Please let me know if you have any questions.

Sincerely,

Ann D Berkowitz

Attachment

cc: W. Maher
W. Dever

Operating, Maintenance & Installation (OI&M) Forbearance

Background and Overview

- The OI&M restriction is not mentioned anywhere in the Act.
- The Commission created it when it adopted rules to implement the "operate independently" provision in section 272(b)(1).
- The Commission was primarily concerned about its ability to monitor the allocation of costs between the BOCs and their 272 affiliates.
- When it was adopted, the Commission did not have a record to conduct a cost-benefit analysis of using structural separation as opposed to accounting safeguards.
- On 8/5/02, Verizon filed its petition for forbearance from the prohibition of OI&M in CC Docket 96-149.

There is Support for Forbearance

- Verizon's has several years of experience with 272 affiliates.
- The OI&M restriction is the major factor in the additional costs caused by the 272 separate affiliate rules. The prohibition:
  - Prevents Verizon from offering one-stop customer interface for repair and provisioning.
  - Imposes duplicative costs on Verizon's affiliates by requiring them to hire additional personnel to do provisioning and maintenance work that could be done more efficiently by sharing personnel with the BOC.
  - Requires the affiliate to develop and operate its own operating support systems when the BOCs' OSSs could perform the same tasks with little modification.

Verizon's Analysis Shows

- The costs of complying with the OI& M restriction far outweigh any previously perceived benefits.
- Verizon incurred approximately $320 million in expenses to comply with the section 272 separate affiliate requirements from 1998-2002, of which $212 million is related to the OI&M restriction.
- Verizon could not eliminate all sunk investments if the OI&M restriction were eliminated today, but it could achieve about $183 million in incremental savings from 2003-2006 by sharing these services with the BOCs.

There is No Regulatory Need for the Restriction

- BOCs and their 272 affiliates should be allowed to share OI& M services just as they are permitted to share administrative and other services.
- There is no fundamental difference between the cost allocations necessary to monitor the sharing of OI& M and services such as finance, human resources, legal and accounting.
- Positive time reporting can be used as it is used today for nonregulated services such as inside wiring maintenance.

Concerns Raised are Unfounded

- Cross-subsidization is not a realistic danger for carriers such as the BOCs who are subject to price-based regulation.
- Elimination of sharing and adoption of CALLS, which eliminated the need for cost supported SLC and which reduces the X factor to the GDPPI when the average traffic sensitive rate hits the target (which it has in virtually all of Verizon areas) are <u>changed circumstances</u> which avoid the cross-subsidization concerns that the Commission cited in adopting the OI&M restriction.
- Restriction is not necessary to prevent discrimination -- the Commission retains ample authority under the Act:
  - All Section 272(e) nondiscrimination safeguards continue to apply until sunset.
  - Sections 272(e)(1) and (e)(3) ensure parity of performance and access charge imputation even after sunset.
  - Sections 201 and 202 ensure the reasonableness of access charges and prohibit discrimination.
  - Section 251(c) and the Commission's network disclosure rules provide additional safeguards.

Long Distance Market Share

- Arguments that the OI&M restriction hasn't handicapped BOCs because they have been able to gain significant shares of the long distance market in a relatively short time are beside the point.
  - They shed no light on the artificial costs imposed by the restriction.
  - BOCs' success is primarily the result of their marketing and sales efforts in addition to innovative pricing plans.
  - Moreover, the BOCs have courted the residential and low-volume customers that the IXCs were losing interest in.
  - In the large business market, the BOCs are starting with virtually no market share and incumbent IXCs still dominate.

Inefficiencies Will be Exacerbated in a Broadband Environment

- The OI&M restriction requires the use of multiple work groups to deal with arbitrarily delineated demarcations between "local" and "long distance."
- The restriction saddles the BOCs and the 272 affiliates with separate systems for network creation, ordering, provision, surveillance, maintenance and repair.
- Elimination of this restriction would allow Verizon to compete on equal terms with other broadband providers

Impact on the Large Business Market

- The OI&M restriction puts Verizon at a significant disadvantage in competing with carriers that are able to offer an integrated service platform using their local and long distance facilities.
- Many of Verizon's competitors provide their own transmission facilities directly to the customer's location, seamlessly integrating "local" and "long distance" networks and using a single work force to respond to installation and repair requests.
- The OI&M rules result in handoffs of customer requests for service and repair that add costs and difficulty in meeting large business customer expectations.

16

Dee May
Assistant Vice President
Federal Regulatory

verizon

1300 I Street, NW, Floor 400W
Washington, DC 20005

Phone 202 515-2529
Fax 202 336-7922
dolores.a.may@verizon.com

June 4, 2003

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Petition of Verizon for Forbearance from the Prohibition of Sharing Operating, Installation, and Maintenance Functions Under Section 53.203(a)(2) of the Commission's Rules*, CC Docket No. 96-149; *Regulatory Review Requirements for Incumbent LEC Broadband Telecommunications Services*, CC Docket No. 01-337; and *Appropriate Framework for Broadband Access to the Internet Over Wireline Facilities*, WC Docket No. 02-33 – **REDACTED**

Dear Ms. Dortch

Verizon submits the attached information in response to questions raised by the Commission staff concerning Verizon's petition for forbearance from the prohibition of sharing operating, installation, and maintenance ("OI&M") services between a Bell Operating Company and a section 272 separate affiliate. The attachments include the following information; (1) a description of Verizon's principal section 272 affiliates and the markets that they serve; (2) a description of the safeguards that would continue to apply if the Commission granted forbearance from the OI&M restriction, including a description of how the "operate independently" requirement in section 272(b)(1) would function if the OI&M restriction were removed and a description of how the Commission's cost allocation rules would apply to the sharing of OI&M services; (3) a detailed narrative of Verizon's method of calculating the going-forward cost savings that it could achieve if the OI&M restriction were lifted; and (4) charts showing the historic costs incurred to comply with the OI&M restriction from 1998 through 2002 and the cost savings that could be achieved from 2003 through 2006.

The cost data in item (4) are being submitted on a confidential basis pursuant to the bureau's Protective Order, released May 22, 2003. The historic data for the period from 1998 through 2002 are the same data that Verizon submitted on a confidential basis on May 12, 2003. The projected data are based on Verizon Global Network Inc.'s projected budget for the period 2003 through 2006. These data were the basis for Verizon's showing that it would save as much as $183 million if the OI&M restriction were lifted.

Sincerely

Dee May

Attachments

cc: J. Carlisle
M. Carey
B. Olson
R. Tanner
W. Dever
R. Kaufman
C. Rand
M. Stephens
P. Megna

ATTACHMENT 1

DESCRIPTION OF VERIZON'S SECTION 272 AFFILIATES

Bell Atlantic Communications, Inc. (BACI) d/b/a Verizon Long Distance (VLD) Provides long distance service to residential customers. Also serves general business customers not served by the former Bell Atlantic local exchange carriers. VLD does not own switching or transmission equipment.

NYNEX Long Distance Company (NLD) d/b/a Verizon Enterprise Solutions (VES)
Serves general business customers, primarily within the former Bell Atlantic footprint. NLD does not own switching or transmission equipment.

***Verizon Select Services Inc. (VSSI) f/k/a* GTE Communications Corporation**
VSSI serves enterprise large business customers in the areas of interexchange telecommunications services, managed voice and data solutions, and CPE. Provides prepaid and postpaid long distance calling cards, operator services and coin long distance services nationwide. VSSI has two switches recorded in its asset accounts. These switches are operated and maintained by GNI (see below).

Verizon Global Solutions Inc. (GSI)
GSI owns long distance switches in New York and Los Angeles for the primary purpose of aggregating traffic of Verizon and other carriers destined for locations outside the United States and also for the purpose of terminating traffic of foreign carriers in the United States.

Global Network Inc. (GNI)
GNI owns and operates the Verizon domestic long distance network. It serves only internal Verizon affiliates and is not a common carrier.

ATTACHMENT 2

SAFEGUARDS THAT WOULD CONTINUE TO APPLY IF THE OI&M RESTRICTION WERE REMOVED[1]

1. <u>Section 272(b)(1) "operate independently" requirements will apply.</u>

In the *Non-Accounting Safeguards Order*,[2] the Commission defined the "operate independently" requirement of section 272(b)(1) as requiring three things; (1) the section 272 affiliates must own their own switching and transmission facilities; (2) they must own their own land and buildings on which those facilities are located; and (3) they must not share OI&M services with the BOCs. *See Accounting Safeguards Order*, ¶ 158. The order permitted the carriers to share all other services, subject to affiliate transaction rules. *See* id., ¶ 178. The Commission did not believe that the sharing of such services conflicted with the "operate independently" requirement. In its petition for forbearance, Verizon has shown that the "operate independently" requirement does not require a prohibition of the sharing of OI&M services. Consequently, if this restriction were lifted, the section BOC and the section 272 affiliate would still have to "operate independently" by having separate switching and transmission facilities and owning separate land and buildings on which those facilities are located.

2. <u>Section 272(b)(2) requirement for separate books, records and accounts</u>.

Section 272(b)(2) will continue to require the BOC/ILEC and the section 272 affiliates to maintain separate books, records and accounts.

3. <u>Section 272(b)(3) requirement for separate officers, directors, and employees</u>.

Section 272(b)(3) will continue to require the BOC/ILEC and the section 272 affiliates to maintain separate officers, directors, and employees.

4. <u>Section 272(b)(4) requirement for separate financing.</u>

Section 272(b)(4) will continue to prohibit the section 272 affiliate from obtaining credit under an arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC/ILEC.

5. <u>Section 272 (b)(5) obligations will apply:</u>

A. Pricing of the Transaction/Contract

1 This describes the safeguards that would apply if the OI&M restriction were removed prior to sunset of the separate affiliate requirements under section 272.

2 *Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended*, 11 FCC Rcd 21905 (1996) ("*Non-Accounting Safeguards Order*").

Transactions between a BOC/ILEC and a Section 272 affiliate are subject to the Section 32.27 affiliate transactions pricing regulations. For services provided by the BOC/ILEC to the Section 272 affiliate (i.e. "outbound" services) pricing would be at:

i. Tariff, if tariff exists,
ii. Prevailing market rate, where services are sold to others;
iii. Or higher of fully distributed cost or estimated fair market value where the cases above do not exist.

Since OI&M is not tariffed and is offered to a Section 272 affiliate, any price charged by the ILEC will be considered to be the prevailing price.[3]

B. Disclosure of the Transaction/Contract

The provision of OI&M services to the Section 272 affiliates would need to be reduced to writing before services were provided. This would involve developing the terms and conditions of the offering on an arms-length basis. These contracts would need to be posted on the 272 affiliates' web sites within 10 days of contract execution.

6. Section 272(c)(1) non-discrimination obligations will apply.

If a Verizon BOC offers OI&M services to Verizon's Section 272 affiliates, it will be required to offer the same service to other carriers on a nondiscriminatory basis.

7. Section 272(e) obligations will apply:

The provision of exchange access services (such as special access) by the BOC/ILEC to the Section 272 affiliate would continue to be subject to the requirements of section 272(e);

- Pursuant to section 272(e)(1), the BOC/ILEC would be required to fulfill requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such services to itself or its affiliates. For purposes of the biennial section 272 audits, Verizon tracks the performance for installation and repair of Special Access services and for processing of carrier-initiated presubscribed interexchange carrier ("PIC") change orders. Performance in these categories would continue to be measured in the same way regardless of whether BOC personnel install and repair the section 272 affiliate's network in addition to their provision of Special Access services and PIC change orders.

[3] In order to qualify for prevailing price valuation, sales of a particular service (or asset) to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. ILECs must apply this 25 percent threshold on a service-by-service (or asset-by-asset) basis, rather than on a product line or service line basis. In the case of transactions for services subject to Section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied. *See* 47 C.F.R. § 32.27(d).

- Pursuant to section 272 (e)(2), the BOC/ILEC would provide facilities, services and information concerning the provision of exchange access to other providers of interLATA service on the same terms and conditions as it does for affiliates.

- Pursuant to section 272(e)(3), the BOC/ILEC would charge and bill the affiliate and impute to itself charges for telephone exchange service and for exchange access that are no less than the charges they apply to unaffiliated interexchange carriers.

- Pursuant to section 272(e)(4), the BOC/ILEC will offer intraLATA and interLATA facilities to unaffiliated carriers at the same rates, terms and conditions that it offers such facilities to its section 272 affiliates.

8. <u>Part 64 Accounting will apply for the OI&M Services:</u>

A. OI&M Service on the BOC/ILEC Books Would follow Part 64

The provision of OI&M services for the section 272 affiliates' interLATA switching and transmission equipment would be a "transaction" between the BOC/ILEC and the section 272 (non-regulated) affiliate and would be subject to the Commission's affiliate transaction rules in Part 32.27.

Verizon would record this affiliate transaction as non-regulated revenue on the BOC/ILEC books and the BOC/ILEC would allocate the associated expenses to non-regulated expense using Part 64 cost allocation practices. This would be consistent with the current method of accounting for Customer Premise Equipment (CPE), Enhanced Services, Premise Wire (Inside Wire), and InterLATA Information Services.

B. Any Provision of Service Would Be Described in the CAM Manual:

The OI&M service would be shown in the Cost Allocation Manual under the Section II list of non-regulated BOC/ILEC services.

9. <u>Audit requirements will be met:</u>

These audits include:

- <u>272 Biennial Audit:</u> There will be section 272 audits covering 2003/2004 and 2005/2006 following "agreed-upon procedures" in which all observations are reported, regardless of materiality. This includes audits of performance measurements under section 272(e)(1).

- CAM Audit: Compliance with the FCC accounting safeguards (both affiliate transaction and cost allocation rules) is reviewed in the biennial CAM audit. The on-going audit covers 2002 and 2003.

10. Section 201 requirement for just and reasonable rates.

Section 201 would continue to require the BOC/ILEC to offer just and reasonable rates under the requirements of the Commission's price cap rules.

11. Section 202 non-discrimination requirements

Section 202 would continue to require the BOC/ILEC to provide exchange access services to affiliates and non-affiliates without unjust or unreasonable discrimination.

12. Section 251(c) offering of interconnection and unbundled network elements

Section 251(c) would continue to require the BOC/ILEC to offer interconnection and unbundled network elements on a just, reasonable and non-discriminatory basis.

ATTACHMENT 3

COST SAVING METHODOLOGY

This is an update to the exhibit included in Verizon's September 24, 2002 Reply Comments describing the development of Verizon's estimates of the costs that Verizon Global Networks Inc. ("GNI") has incurred in the past due to the restriction on sharing operating, installation and maintenance ("OI&M") services with its BOC affiliates and the costs that it expects to save in the future if the OI&M restriction were removed.

For each major type of operating expense, capital expenditure, and depreciation, a determination was made as to the percent of this cost that was incurred strictly because of the section 272 structural separation and nondiscrimination requirements. (See Tables 1 and 2 below.) This percentage was applied to actual costs (including the 2002 budgeted expenses) to determine the "sunk cost" of separation. The same percentages were applied to GNI's business plan to determine the anticipated costs for 2003 and beyond that would be incurred solely to meet section 272 separation requirements.[1]

It is important to note that the estimated "incremental cost" from this methodology cannot be directly compared to the actual costs/savings of reintegration because, in many cases, abandonment of sunk investment and complete reintegration of GNI's long distance network and operations with the local exchange company's would not be either possible or cost effective. Without knowing the timeline and the extent of reintegration allowed, it is not possible to arrive at an accurate "bottom up" view of the costs and/or savings attributable to reintegration.

Using the methodology and conservative assumptions described above, GNI's business costs attributable to structural separation were calculated. The results show that GNI incurred approximately *$195 million in capital costs and $320 million in expenses,*[2] *including* depreciation on capital, from 1998 through 2002 to meet section 272 requirements. The analysis also shows that GNI will incur an additional $552 million in expenses from 2003 to 2006 to continue to meet these requirements. See Attachment 4.

---

1 When Verizon developed this analysis for its forbearance petition, its calculation of the potential savings if the Commission granted forbearance from the OI&M restrictions assumed that the Commission would grant the petition before 2003. Since it is now mid-2003, the potential savings shown in Attachment 4 should be considered representative of the going-forward savings that Verizon could achieve over the next four-year period after the petition is granted.

2 In its September 24, 2002 Reply Comments, Verizon estimated that it had incurred $314 million in expenses due to the section 272 requirements. In its May 12, 2003 *ex parte* filing, Verizon updated the historic 1998-2002 costs that it used in the September filing to reflect year-ending 2002 actual data and other corrections. This resulted in the final estimate of $320 million of expenses due to section 272 requirements.

Table 1. Incremental Operating Expense Driven by Structural Separation

Expense Category	Description	% of Expenses Driven by Section 272 Requirements
Professional Services	Professional Services consist of the expenses for third-party vendors, primarily to perform field work. If GNI not been restrained by the Commission's rules prohibiting sharing of operating, installation, and maintenance functions with the BOC, this cost could have been avoided almost entirely by using existing BOC field technicians.	95%
Workforce & Employee related expenses	This includes internal GNI technical employees hired to provide OI&M functions. Although GNI startup required employees with skill sets specific to the long distance network architecture, some efficiencies could have been obtained in the absence of the OI&M restriction for job functions that did not require additional staff for the long distance network, including general administration, sourcing functions, and infrastructure for common service (corporate local area network, email, eWeb, training, etc.).	30%
Leased facilities	Without section 272 restrictions, VZ would have built rings instead of leasing facilities (both for use by GNI and by the local exchange company).	15%
Operational Support System (OSS)	Many of the operating support systems that GNI developed separately to comply with the OI&M restriction, such as inventory, provisioning, order management, trouble management, could have been developed through modification of the BOC systems and reused at a fraction of the costs incurred to develop new systems. The operating support system expense category includes software and hardware maintenance, licenses and right-to-use fees, and non-capital software development.	65%
Hub and POP	Absent the section 272 separation requirements, GNI would have collocated with the LEC wherever possible in-region. However, many LEC POP & Hub spaces were or are exhausted. A conservative approach was taken, with 80% of Hub & POP rental expenses driven by 272 requirements.	80%
Network Operations Center (NOC)	The network operations center provides monitoring and control of the long distance network. Although the long distance network requires additional operations, Verizon estimates that some of the incremental costs of the network operations center could have been avoided by using the BOC network operations center to provide these functions.	30%
Other	Miscellaneous (e.g., human resources allocation, Peoplesoft – Accounts Payable System, etc.)	25%
Back Office Provisioning (e.g., Calling Card, Repair)	These back office functions for GNI were driven almost entirely by the OI&M restriction. For instance, Verizon would not have built the Altoona or Worcester operator services facilities if these services could have been obtained from the BOC, and most of the costs of the error management and repair centers could have been avoided by using BOC services.	80%

It should be noted that Verizon's estimate that 95 percent of GNI's professional services expenses could have been saved if not for the section 272 separate affiliate requirements is related to Verizon's estimate that only 30 percent of workforce expenses could have been saved. Professional services includes the costs of third party vendors that GNI hired due to (1) the need to ramp-up operations more quickly than dedicated employees could be hired; and (2) the lack of economies of scale for certain functions, such as field work, to justify using dedicated employees rather than contractors. If not for the OI&M restriction, almost all of the OI&M work could have been done by BOC employees, avoiding the need for third-party contracting except for a minimal amount of work. Hence, Verizon estimates that 95 percent of professional services costs are caused by the section 272 requirements and could be avoided if the OI&M restriction were eliminated. The estimate that only 30 percent of GNI's workforce costs could have been avoided but for the OI&M restriction reflects the fact that (1) the BOC employees could have handled the additional work on the long distance network with fewer additional employees than GNI due to economies of scale; and (2) the BOC employees would also have performed almost all of the work that GNI has been contracting to third-party vendors. In other words, the BOC would have been able to perform the OI&M services for GNI with only 70 percent of the costs incurred by GNI for workforce and 5 percent of the costs incurred by GNI for professional services by performing almost all of these services using BOC employees.

Table 2. Incremental Investment And Depreciation Expense[3] Driven by Structural Separation

Investment/ Depreciation Category	Description	% of Additional Costs Driven by Section 272 Requirements
Hub and POP Equipment	This includes equipment purchased to provide LD service. Some incremental investment could have been avoided by using LEC facilities and equipment.	60%
Administration	80% of capital expenditures, including leasehold improvements, equipment, computers, and software where administrative functions are clearly identifiable (i.e., document server, Lotus notes, administrative PCs, etc.). Most administrative needs would have been served by existing LEC assets.	80%
NOC	A greater percentage of NOC-related capital expenditures were driven by 272 restrictions than expense (e.g. leasehold improvement on separate 272 NOC space).	60%
OSS	Most capital expenditures to establish stand-alone OSSs for GNI could have been avoided by using and expanding existing LEC OSSs.	65%

3 Depreciation was calculated, depending on capital type and number of years depreciated, using straight-line depreciation.

Laboratory	Most non-OSS LD laboratory equipment and facilities capital expenditures could have been avoided absent the section 272 requirements. Actual capital expenditure for LD lab is less than "greenfield" because of manufacturer contract provisions. Capital expenditure for OSS support in the LD lab mirrors production OSS capital expenditure (65%) because lab test systems for new OSSs would have been required that did not exist in the LEC. Lucent Lab in Holmdel expenses are 100% driven by section 272 requirements (i.e., GNI would not have contracted with Lucent to develop a lab).	65 to 100%

Estimated Incremental Savings from Reintegration (2003-2006)

The Commission's Notice of Proposed Rulemaking ("NPRM") in WC Docket No. 02-112 suggests a broad range of scenarios for sunset of the section 272 separate affiliate requirements. Given that each scenario could materially affect when and how reintegration of the section 272 network and organizations would be implemented, Verizon used a general approach to assess sunk costs and anticipated savings resulting from reintegration as percentages of actual and planned expenses. In addition, Verizon assumed for sake of this analysis that the section 272 requirements are removed in all of the states in Verizon's territory in 2003.

If the Commission's section 272 rules were to sunset in 2003, it would not be economic to eliminate all of the "sunk" investments that were made in separate facilities and systems to meet the separate affiliate requirements. However, Verizon conservatively estimates that it could save about $248 million over the 2003 through 2006 time period by reintegrating operations with the BOC where it was economically advantageous to do so. Approximately $183 million of this amount would be due to elimination of the OI&M restriction.

The incremental costs that are driven by the section 272 requirements cannot be directly compared to the actual costs that would be saved through reintegration. In many cases Verizon has considerable investment sunk in a separate 272-compliant network. For example:

- GNI has long-term lease commitments, and considerable investment in leasehold improvements in those spaces. A "flash cut" to the LEC would not be cost effective.
- The network in the majority of the Verizon East corridor, where the greatest synergies with the LEC are, has already been built. GNI has long-term commitments (leases and RTUs) for fiber and facilities in the Northeast and could not easily move to LEC fiber or facilities.
- OSS suites are in place with considerable software and hardware capital investment ($130 million).

Nonetheless, considerable costs could be saved by use of LEC workforce and facilities if the structural separations rules were to sunset. For example:

- Force & Professional Services resources could be ramped to achieve pre-separation savings.
- Savings could be realized in POP rent and operating expenses in existing sites in the Verizon East footprint by gradually relocating certain POPs as leases and as collocation agreements lapse.
- Some savings could be realized in this planning window for OSSs by consolidating selected systems.
- Some synergies with LEC could be found in future network build.

In this filing, Verizon has updated the 1998-2002 historic data to include the year-end actual 2002 costs. The revised historic data are shown in Attachment 4. The estimate of potential savings due to re-integration starting in 2003 are based on the assumptions shown in Table 3 below concerning Verizon's ability to phase in the savings in each category.

Table 3. Incremental Savings Going-Forward (Percentages)

	2003	2004	2005	2006
Force & Related Expense	10%	20%	30%	30%
Professional Svcs.	40%	80%	95%	95%
Facilities (trunks)	3%	10%	15%	15%
OSS	See below[4]			
Hub/POP Rent	10%	20%	30%	40%
NOC Expenses	10%	20%	30%	30%
Other Expenses	10%	15%	25%	25%
Back Office	30%	60%	80%	80%

For each year, these percentages were applied to the forecasted budget amount for that year to estimate the potential cost savings. Both the annual budget amounts in each category and the amount of the savings in each year using these percentages are shown in Attachment 4.

Operating, Installation and Maintenance Savings

If the OI&M restriction were eliminated, significant savings could be obtained by consolidating with the LEC the responsibility for the day-to-day provisioning and maintenance of the long distance switch and transport networks in central offices as well as the remote monitoring and provisioning of services from network operations centers. In addition, up-front trouble handling and associated dispatch functions could also be more efficiently managed. The

[4] OSS savings could not be calculated as a percentage of future expenses, as was the case with the other expenses. The incremental savings associated with OSS were based on a case-by-case analysis of OSS cost avoidance/potential savings over the planning period. Because OSS suites are already in place with considerable software and hardware capital investment, the incremental savings for OSS due to elimination of the section 272 restrictions in the future are relatively small, relating primarily to reductions in the need to purchase software and hardware updates in the future.

OI&M restrictions affect the expenses in the following categories in the table above: (1) professional services, (2) force and employee related expenses, (3) OSSs, (4) NOC and (5) back office provisioning. Based on this analysis, Verizon estimates that if the OI&M restriction were eliminated, GNI would save approximately $183 million over the 2003 through 2006 time period by sharing these services with the BOCs. See Attachment 4.

ATTACHMENT 4

COST DATA

REDACTED FOR PUBLIC INSPECTION

CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER IN CC DOCKET NO. 96-149 before the Federal Communications Commission